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June 15, 1987, Volume 190, Number 12

JOURNAL

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Special Report
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On being compassionate 1534

Career Pathways in Veterinary Medicine
Directing a veterinary technician program 1538

Topical wound medications: A review 1588

Economic Note
1985 US veterinary practice income, expenses, and financial ratios 1594

Abstracts of Convention Reports 1602

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Vol 190 June 15, 1987 No. 12
JAVMA 190(12) 1505-1660 (1987)
ISSN 0003-1488

Letters

Career pathways 1508
Training in epidemiology 1508
Nuclear disaster 1508
Reactions to Carnation's free pet checkup program 1510

News

"AAHA—Where You Belong" Is the Slogan for 1987–1988 1513
Carnation Sends Clarification Letters on Free Checkup Program 1515
Council Sponsors Licensure Reciprocity Resolution 1516
Alternate Therapies Under Investigation 1516
Council Recommends Fellowship Continuation 1517
Council Proposes To Rewrite Code of Ethics . 1521
Council Accredits Schools 1522
Support Expressed for Animal Welfare Bill .. 1523
AVMA Elections Examined 1527
Certification Examinations 1528
State Board Examinations 1528

Special report

US market for food animal veterinary medical services—*J. Karl Wise* 1530

The *Human* Side of Veterinary Medicine

On being compassionate—*Jacob Antelyes* ... 1534

Career Pathways in Veterinary Medicine

Directing a veterinary technician program—*Karen Hrapkiewicz* 1538

Interpretive Summaries of Articles in This Issue 1540

Reports of Original Studies

Identification of ovine adenovirus types five and six in an epizootic of respiratory tract disease in recently weaned lambs—*B. R. LeaMaster, J. F. Evermann, and H. D. Lehmkuhl* 1545

Evaluation of fenbendazole for larvacidal effect in experimentally induced *Parascaris equorum* infections in pony foals—*C. R. Vandermyde, J. A. DiPietro, K. S. Todd, Jr., and T. F. Lock* 1548

Isolation of *Clostridium perfringens* from neonatal calves with ruminal and abomasal tympany, abomasitis, and abomasal ulceration—*B. L. Roeder, M. M. Chengappa, T. G. Nagaraja, T. B. Avery, and G. A. Kennedy* . 1550

Clinical Reports

Pleuroscopic diagnosis of gastroesophageal squamous cell carcinoma in a horse—*Troy S. Ford, Wendy E. Vaala, Corinne R. Sweeney, David Skand, and Judith E. Saik* 1556

Cellulitis and subcutaneous abscesses caused by *Rhodococcus equi* infection in a foal—*John A. Perdrizet and Danny W. Scott* 1559

Pulmonary aspergillosis in a horse with myelomonocytic leukemia—*Julia Blue, John Perdrizet, and Eve Brown* 1562

Atrial fibrillation in a pregnant mare: Treatment with quinidine sulfate—*Joseph J. Bertone, Josie L. Traub-Dargatz, and Wayne E. Wingfield* 1565

Immotile cilia syndrome in an aged dog—*Cheryl R. Killingsworth, R. F. Slocombe, and N. J. Wilsman* 1567

Sarcoptes scabiei infestation in a cat—*James A. Hawkins, Robert K. McDonald, and Benny J. Woody* 1572

Intermittent open-mouth locking of the temperomandibular joint in a cat—*Gary C. Lantz* 1574

Laminitis and decreased milk production in first-lactation cows improperly fed a dairy ration—*Edward A. Moser and Thomas J. Divers* 1575

Reports of Retrospective Studies

Phacofragmentation and aspiration for cataract extraction in dogs: 56 cases (1980–1984)—*Thomas R. Miller, R. David Whitley, Lisa A. Meek, G. Adolfo Garcia, Martha C. Wilson, and Benjamin H. Rawls, Jr.* 1577

Nodular granulomatous episclerokeratitis in dogs: 19 cases (1973–1985)—*Michael E. Paulsen, J. D. Lavach, Stanley P. Snyder, Glenn A. Severin, and Jesse D. Eichenbaum* 1581

Review Article

Topical wound medications: A review *Steven F. Swaim and Alice H. Lee* 1588

Economic Note

1985 US veterinary practice income, expenses, and financial ratios—*J. Karl Wise* ... 1594

What Is Your Diagnosis?

Case 1—*M. D. Markel and L. Y. Kerr* 1599
Case 2—*M. D. Markel and L. Y. Kerr* 1600

Abstracts of Convention Reports 1602

New Veterinary Biological Products .. 1561

Book Reviews

Mycotoxicology: Introduction to the Mycology, Plant Pathology, Chemistry, Toxicology, and Pathology of Naturally Occurring Mycotoxicoses in Animals and Man 1558
Avian Medicine and Surgery 1580

Abstracts of Selected Reports

Register of swine herds monitored for pseudorabies 1547
Isolation of leptospires from nephritic kidneys of beef cattle at slaughter 1564
Acupuncture for the treatment of intractable, idiopathic epilepsy in five dogs 1576
Shedding of enteric coronavirus in adult cattle 1593

Announcements

Coming Meetings 1635
Foreign Meetings 1639
Applications for Membership 1641
Educational Opportunities 1642

Classified Ads 1645

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SUBSCRIPTIONS: For one year: members $25; others $50 in the United States and possessions; $65 in foreign countries. Single copies: $4.00 in the United States and possessions; $5.00 in foreign countries.

Published semimonthly at 930 N Meacham Rd, Schaumburg, IL 60196, by the American Veterinary Medical Association. Second class postage paid at Schaumburg, Ill, and at additional mailing offices. Contents copyright 1987 by the AVMA.

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POSTMASTER: Send address changes to JAVMA, 930 N Meacham Rd, Schaumburg, IL 60196.

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Economic Note

1985 US veterinary practice income, expenses, and financial ratios

The American Veterinary Medical Association's 1986 biennial economic survey of US veterinarians included questions on financial aspects of veterinary practice operation in 1985.[1] Analysis of these survey data emphasized gross practice income, net practice income, returns to capital, labor, and management, cash operating expenses, and operating expense and financial ratios. Practices were included in this analysis if: they employed at least 1 full-time equivalent veterinarian; they had been established for more than 1 year; they were operational 48 or more weeks in 1985; and they reported gross income, expense, and asset and liability data on the survey.

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Practice income

Mean 1985 gross practice income was $245,287, up 21% from $202,616 in 1983 (Table 1).[2] Analysis by practice type showed that gross practice income ranged from a low of $200,385 for large animal exclusive practice to a high of $313,443 for large animal predominant practice (Table 1). Mean gross practice income was $247,035 for equine practice, $232,156 for mixed animal, $219,701 for small animal predominant, and $245,054 for small animal exclusive practice. A comparison of 1985 and 1983 data showed only slight increases in gross practice income for large animal practice and large increases for small animal and equine practice: large animal exclusive, up 4% from 1983 to 1985; large animal predominant, up 1%; mixed animal, up 14%; small animal predominant, up 27%; small animal exclusive, up 29%; and equine predominant, up 21%.

Mean 1985 total practice expenses were computed as the sum of all cash operating expenses and employed (nonowner) veterinarian's earnings. Office rent was included in total practice expenses only if practice real estate was leased from other than a veterinarian involved in the practice. Mean total practice expense was $152,088, ranging from a low of $124,039 for large animal exclusive to a high of $200,129 for large animal predominant practice (Table 1). For all practice types, mean total practice expenses were up 24% from 1983.

Net practice income for 1985 was determined by subtracting total practice expenses from gross

Table 1—Mean 1985 practice return ($) on capital, labor, and management

	Equine predominant	Large animal exclusive	Large animal predominant	Mixed animal	Small animal predominant	Small animal exclusive	All practices
Gross practice income	247,035	200,385	313,443	232,156	219,701	245,054	245,287
Total practice expenses*	155,344	124,039	200,129	147,458	135,989	149,992	152,088
Net practice income†	91,691	76,346	113,314	84,698	83,712	95,062	93,199
Return on capital‡	10,651	4,672	9,837	10,889	11,973	14,608	12,591
Return to labor and management§	81,040	71,674	103,477	73,809	71,739	80,454	80,609
Net practice income per owner‖	69,389	48,556	53,939	51,738	59,991	75,166	66,544
Return to labor and management per owner¶	59,231	44,732	47,662	44,108	50,847	63,011	56,479
Annual salary per owner#	49,546	35,970	37,705	40,058	39,592	51,631	46,169
Return to management per owner**	9,685	8,762	9,977	4,050	11,255	11,380	10,311
	(75)††	(71)	(175)	(159)	(179)	(179)	

*Total practice expenses include all cash operating expenses plus employed (nonowner) veterinarians' earnings, minus office rent if real estate was leased from veterinarians involved in the practice. †Net practice income equals the difference between gross practice income and total practice expenses. ‡Return on capital was computed as 12% of practice owners' equity. Equity equals the difference between the fair market value of practice fixed assets and long-term debt. §Return to labor and management was computed as net practice income less return on capital. ‖Net practice income per owner was computed by dividing net practice income by the number of full-time equivalent employed owners. ¶Return to labor and management per owner was computed by dividing return to labor and management by the number of full-time equivalent employed owners. #Annual 1985 salary reported by full-time employed practice owners. **Return to management per owner was computed as the residual profit, ie, the return to labor and management per owner less the imputed return to labor per owner (ie, mean salary per owner). ††Number of usable responses.

practice income. For all practices, mean net practice income was $93,199. Mean net practice income ranged across practice types from a low of $76,346 to a high of $113,314 for large animal predominant. On the average, net practice income was 38% of gross practice income and showed a very narrow range from 36% for large animal predominant and mixed animal practice to 39% for small animal practice.

Net practice income includes return on capital invested, return to labor, and return to management. Return on capital invested was computed as 12% of practice equity or net worth. Equity equals the difference between the value of practice fixed assets and long-term debt. Return on capital invested represents a charge against practice income for the capital invested equal to the expected return if the capital were invested in its next best alternative use. Mean return on capital per practice was $12,591 (Table 1). It ranged from $4,672 for large animal exclusive to $14,608 for small animal exclusive.

Return to labor and management was computed as net practice income less return on capital. The mean return to labor and management was $80,609, ranging from approximately $72,000 for large animal exclusive and small animal predominant to approximately $103,500 for large animal predominant (Table 1). On the average, return to labor and management was about 32% of gross practice income.

Income per owner

Net practice income per owner was computed by dividing net practice income by the full-time equivalent number of veterinarian-owners working in the practice. On the average, there were 1.4 owners per practice, ranging from 1.2 for equine predominant to 2.0 for large animal predominant. The mean number of owners per practice for other practice types were: 1.5, large animal exclusive; 1.6, mixed animal; 1.4, small animal predominant; and 1.3, small animal exclusive.

Mean net practice income per owner in 1985 was $65,544, up 14% from 1983. It ranged from a low of $48,556 for large animal exclusive to a high of $75,166 for small animal exclusive (Table 1). Mean net practice income per owner was $53,939 for large animal predominant, $51,738 for mixed animal, $59,991 for small animal predominant, and $69,389 for equine predominant.

Return to labor and management per owner averaged $56,479, ranging from $44,108 for mixed animal practice, up 9% from 1983, to $63,011 for small animal exclusive, up 28% from 1983. For small animal exclusive practice owners, this represents an increase of 14%/yr. For all practice types, mean return to labor and management per owner increased 18% over the 2-year period, or about 9%/yr. While small animal practice owners showed strong gains, large animal and equine practice owners showed declines. For large animal exclusive, mean return to labor and management per owner declined 3% from $46,080 in 1983 to $44,732 in 1985, large animal predominant declined 3% from $49,129 in 1983 to $47,682 in 1985, and equine practice return declined 1% from $60,077 in 1983 to $59,231 in 1985.

Return to labor represents the owner's time as a veterinarian. In this analysis, return to labor was chosen to equal the annual 1985 salary reported by full-time self-employed veterinarian-owners of practices. The national average owner's salary was $46,169 in 1985. Large animal practice owners reported lower salaries in 1985 relative to 1983, while equine and small animal practice owners reported higher salaries. For 1985, annual salaries for owners ranged from a low of $35,970 for large animal exclusive to a high of $51,631 for small animal exclusive.

Subtracting owner's salary from return to labor and management per owner yields the return to management per owner. Return to management represents anticipated entrepreneurial profit in excess of the expected return on capital and labor. The mean return to management per owner was $10,311 (Table 1). It ranged from a low of $4,050 for mixed animal practice to $11,380 for small animal exclusive practice. It was $9,685 for equine predominant, $8,762 for large animal exclusive, $9,977 for large animal predominant, and $11,255 for small animal predominant. On the average, practices generated about 3% to 5% of 1985 gross practice income as return to management per owner.

Table 2—Mean and median 1985 practice income

	Gross practice income ($)		Return to labor and management per owner ($)	
	Mean	Median	Mean	Median
Equine predominant	247,035	155,000	59,231	50,070
Large animal exclusive	200,385	120,272	44,732	36,310
Large animal predominant	313,443	235,000	47,682	41,932
Mixed animal	232,156	180,000	44,178	42,178
Small animal predominant	219,701	176,107	50,847	46,593
Small animal exclusive	245,054	190,000	63,011	52,519
All practices	245,287	186,447	56,486	48,479

Mean income vs median income

Mean and median 1985 gross practice incomes and returns to labor and management per owner were calculated (Table 2). Mean incomes, commonly called "averages," were calculated for Tables 1 and 2 by summing all income values and dividing by the number of respondents. For compari-

Table 3—Mean 1985 gross practice income ($) and gross practice income ($) per veterinarian, by number of veterinarians

No. of veterinarians	Equine predominant	Large animal exclusive	Large animal predominant	Mixed animal	Small animal predominant	Small animal exclusive
1 (1 to 1.5)*	134,003†	106,846	122,025	102,279	131,824	147,871
	131,710‡	105,302	117,557	101,402	127,430	137,606
2 (1.6 to 2.5)	218,896	211,914	247,511	217,381	226,991	283,359
	108,156	104,878	121,716	108,794	110,569	138,468
3 (2.6 to 3.5)	349,200	354,912	422,978	361,799	372,834	458,694
	111,828	118,304	140,188	119,797	123,805	150,374
4 (3.6 to 4.5)	800,000	416,555	516,945	445,675	518,018	522,001
	200,000	104,138	128,473	110,240	129,504	132,229
5 or more (4.6 or more)	1,254,737	572,880	744,789	594,810	561,459	691,561
	176,343	109,859	129,315	107,215	97,798	102,881
All practices	247,035	200,385	313,443	232,156	219,701	245,054
	130,485	106,459	124,747	107,546	121,500	137,879
	(74)§	(71)	(175)	(159)	(179)	(179)

*Numbers in parentheses represent the range of full-time equivalents. For purposes of discussion in the text, the range of 1 to 1.5 will be referred to as a 1-veterinarian practice, and 1.6 to 2.5 as a 2-veterinarian practice, etc. †1985 mean gross practice income. ‡1985 mean gross practice income per veterinarian. §Number of usable responses.

son purposes, median incomes were calculated as the income level that divided the income distribution in half, ie, 50% of all veterinarians earning incomes below and 50% above this income level.

Table 2 shows that mean 1985 gross practice income was $245,287. The median 1985 gross practice income was $186,447, roughly $60,000 less than the mean. This difference between the mean and median highlights the fact that a few very high incomes offset many lower incomes to skew the mean upward. The mean incomes reported in Table 1 are useful for comparisons across practice types and over time, but median incomes reported in Table 2 more accurately reflect the "typical" practice owner's income level. Thus, the median return to labor and management for all practice owners in 1985 was $48,479 and ranged from a low of $36,310 for large animal practice to a high of $52,519 for small animal exclusive practice owners.

Practice income and number of veterinarians

To provide a perspective on the relationship between gross practice income and number of veterinarians, the sample of practices was divided into 5 classes according to the number of veterinarians in the practice (1, 2, 3, 4, or 5).

Gross practice income per veterinarian in 1985 ranged from $106,459 for large animal exclusive to $137,879 for small animal exclusive (Table 3). In general, 1-veterinarian practices generated between $100,000 and $148,000/yr, depending on practice type, 2-veterinarian practices generated revenues in the range of $211,000 to $283,000, and 3-veterinarian practices gener-

Table 4—Mean 1985 practice cash expenses ($), by type of practice

Expense item*	Equine predominant	Large animal exclusive	Large animal predominant	Mixed animal	Small animal predominant	Small animal exclusive	All practices
Employed (nonowner) veterinarian wages	41,339	28,876	29,471	36,550	25,783	31,894	31,419
Nonprofessional staff wages	33,569	14,482	24,876	27,343	33,395	39,912	34,396
Payroll taxes	8,138	6,683	7,107	8,779	8,727	8,903	8,508
Drugs and hospital supplies	58,501	63,176	111,225	58,835	42,055	37,724	50,995
Office supplies	3,516	1,948	3,738	4,730	3,662	3,968	3,835
Office rent	4,231	4,933	7,676	14,776	11,957	20,045	15,253
Equipment rental	4,523	3,094	4,546	3,718	2,973	4,383	4,056
Auto expense	8,160	9,326	10,432	6,523	3,523	2,369	4,503
Utilities and telephone	5,745	3,298	6,047	5,869	6,346	6,283	6,048
Laboratory fees	5,167	2,838	2,383	2,300	2,715	4,911	3,945
Property taxes	1,943	1,712	1,704	1,873	2,125	2,907	2,439
Licenses, permits, dues, subscriptions	1,087	912	1,038	1,066	1,187	1,504	1,308
Building and equipment repair and maintenance	2,948	1,369	2,350	2,669	2,427	3,334	2,896
Accounting and legal	1,587	1,495	1,731	1,460	1,859	2,356	2,039
Insurance	6,641	3,921	4,918	4,866	5,771	4,697	4,975
Interest	9,030	4,727	5,616	6,800	6,433	8,824	7,898
Continuing education and travel	2,940	1,510	1,280	1,375	1,591	1,612	1,616
Disposal	477	452	574	810	1,070	1,035	909
Feed	5,545	7,293	4,427	2,284	2,316	3,632	3,677
Pension and profit sharing (nonowners)	14,348	7,928	6,340	5,394	5,432	7,934	7,468
Miscellaneous	2,389	4,343	3,858	3,411	3,758	4,075	3,863

*Includes only practices incurring an expense for each item; missing values and zero expenses were excluded.

Table 5—Mean 1985 practice cash expenses as a percentage of total practice expenses and gross practice revenue, by type of practice

Expense item*	Equine predominant		Large animal exclusive		Large animal predominant		Mixed animal		Small animal predominant		Small animal exclusive		All practices	
	% of total expenses	% of gross revenue	% of total expenses	% of gross revenue	% of total expenses	% of gross revenue	% of total expenses	% of gross revenue	% of total expenses	% of gross revenue	% of total expenses	% of gross revenue	% of total expenses	% of gross revenue
Employed (nonowner) veterinarian wages	16.0	10.7	14.6	10.1	11.8	7.8	16.6	11.6	13.8	9.1	13.4	8.9	13.8	9.2
Nonprofessional staff wages	14.6	9.3	11.2	6.5	13.2	8.3	17.7	11.2	23.0	14.5	25.5	15.3	21.7	13.2
Payroll taxes	4.1	2.7	4.2	2.6	3.6	2.3	4.9	3.1	6.0	4.5	5.3	3.2	5.1	3.2
Drugs and hospital supplies	42.5	24.4	50.3	30.4	53.6	35.1	42.1	26.5	33.2	21.1	27.7	16.2	34.7	21.2
Office supplies	3.3	1.8	2.1	1.1	2.3	1.4	3.2	2.1	3.0	1.9	2.8	1.7	2.8	1.7
Office rent	3.5	2.4	3.4	2.2	6.6	4.1	8.5	6.1	11.2	7.9	15.1	9.7	11.7	7.7
Equipment rental	3.5	2.3	3.2	1.9	2.4	1.6	2.3	1.4	2.9	2.1	2.8	1.8	2.8	1.8
Auto expense	7.0	4.1	9.4	5.5	6.1	3.7	5.3	3.3	3.4	2.1	2.3	1.3	3.8	2.2
Utilities and telephone	4.8	2.9	3.6	2.1	3.6	2.3	4.8	2.9	5.5	3.4	5.3	3.0	5.0	2.9
Laboratory fees	3.8	2.2	2.3	1.3	1.3	0.8	1.5	0.9	2.1	1.2	3.2	1.9	2.6	1.6
Property taxes	1.4	0.8	1.3	0.8	1.0	0.6	1.7	1.1	1.7	1.0	2.5	1.3	2.0	1.1
Licenses, permits, dues, subscriptions	1.0	0.6	1.2	0.7	0.7	0.4	0.9	0.6	1.0	0.7	1.2	0.7	1.1	0.7
Building and equipment repair and maintenance	1.6	1.0	1.5	0.8	1.3	0.8	2.0	1.2	2.1	1.3	2.4	1.4	2.1	1.2
Accounting and legal	1.5	0.9	1.8	0.9	0.9	0.6	1.0	0.6	1.3	0.9	1.7	1.0	1.5	0.9
Insurance	4.7	2.7	3.9	2.4	2.8	1.8	3.3	2.1	4.1	2.6	3.1	1.8	3.4	2.0
Interest	5.9	3.9	5.1	2.9	3.6	2.5	5.6	3.8	5.9	3.9	7.3	4.7	6.3	4.1
Continuing education and travel	2.4	1.4	1.5	0.8	0.8	0.5	1.1	0.7	1.2	0.7	1.2	0.7	1.2	0.7
Disposal	0.4	0.3	0.5	0.3	0.7	0.4	0.5	0.3	0.7	0.5	0.7	0.4	0.7	0.4
Feed	3.3	2.0	0.4	2.2	2.0	1.4	1.6	1.0	1.8	1.1	2.3	1.4	2.1	1.4
Pension and profit sharing (nonowners)	7.5	4.2	4.3	2.6	2.8	1.6	3.5	2.0	2.5	1.4	3.6	2.2	3.6	2.1
Miscellaneous	2.8	1.5	3.0	1.9	1.8	1.2	2.3	1.5	3.2	2.0	2.7	1.8	2.7	1.7

*Includes only practices incurring an expense for each item; missing values and zero expenses were excluded.

Table 6—Median 1985 veterinary practice financial ratios

	Equine predominant	Large animal exclusive	Large animal predominant	Mixed animal	Small animal predominant	Small animal exclusive	All practices
Return to labor and management: gross practice income	0.34	0.39	0.30	0.31	0.31	0.33	0.33
Total practice debt: total practice assets	0.29	0.29	0.22	0.33	0.33	0.38	0.34
Total practice debt: practice net worth	0.67	0.63	0.53	0.73	0.60	0.67	0.65
Current assets: current liabilities	3.33	3.27	3.57	2.00	1.76	1.64	2.08
Drug and hospital supply expense: drug and hospital supply inventory	5.00	4.89	3.56	3.87	4.16	3.95	4.04

ated $350,000 to $460,000/yr. With the exception of equine predominant and small animal predominant, all other practice types reached a peak in gross revenue generated per veterinarian with the 3-veterinarian size of practice. Veterinary practices may achieve economies of scale at this level, beyond which growth in number of veterinarians produces diminishing returns.

Practice expenses

Veterinary practice owners reported 1985 cash expenditures for 21 practice expense items (Table 4). Mean annual expense for each expense item was determined by practice type for those practices incurring a particular expense.

Generally, drugs and hospital supply expenses represented the greatest expense item, ranging from $37,724 for small animal exclusive to $111,225 for large animal predominant practice. Other cash operating expenses are summarized according to the type of practice (Table 4).

Operating expense ratios or percentages also were developed for the 21 practice expense items (Table 5). For each practice, each expense was divided by total practice expenses and then by gross practice income. Missing values or zero expenditures for a particular expense were not included in the computation of the percentage for that particular expense item. For this reason, the sum of all operating expense percentages for a particular practice type equals more than 100%.

Drugs and hospital supply expenses represented 34.7% of total practice expenses and 21.2% of gross practice revenue. With a few exceptions, most operating expense percentages showed little change from 1983.[2] For small animal predominant and small animal exclusive, employed (nonowner) veterinarian wages declined from 16.7% and 14.9% of total expenses in 1983, respectively, to 13.8% and 13.4% of total expenses in 1985, respectively.

Financial ratios

Five financial ratios were computed to examine the relationship of certain financial variables to one another (Table 6). Ratios presented here are not absolute criteria for operating performance, but rather represent industry bench marks or averages.

As a measure of profitability, the median ratio of practice owner's return to labor and management to gross practice income was determined to be 0.33. This means that, on the average, after deducting all practice expenses including an expected return on capital invested (owners' equity) in the practice, practice owners' net income before personal taxes from practice was 33% of gross practice income. Stated another way, for every dollar of gross practice income generated in 1985, 33 cents was net income to the practice owner(s). A comparison with 1983 showed that over the 2-year period, this ratio declined for every practice type by 1 to 3 percentage points.

As a measure of long-run solvency, the median ratio of total practice debt to total practice assets was estimated to be 0.34, down from 0.39 in 1983. This ratio is useful to creditors, because it indicates the proportion of practice assets that are financed outside the practice. Another measure of long-run solvency is total practice debt to practice net worth, or owner's equity. If this ratio is greater than 1.0, then external debt is greater than owner's equity and, from a creditor's point of view, the practice may be undercapitalized. In 1985, total debt to net worth suggests that owners are not highly leveraged through outside financing.

A measure of a practice's ability to meet short-term debts is the acid-test or quick ratio. The acid-test ratio relates current assets (ie, cash, short-term marketable securities, and accounts receivable) to total current liabilities (ie, accounts payable and notes payable in 1 year). The median acid-test ratio of current assets to current liabilities was 2.08 in 1985, up slightly from 1.92 in 1983.

Inventory turnover ratio measures how many times a practice's inventory has been depleted during the year. Median inventory turnover was computed by dividing drugs and hospital supply expenses by the value of drugs and hospital supply inventory and in 1985 was 4.04, up from 3.33 in 1983.

References

1. Wise JK. 1985 incomes of US veterinarians. *J Am Vet Med Assoc* 1987; 190:1333–1337.

2. Wise JK. 1983 US veterinary practice income, expenses, and financial ratios. *J Am Vet Med Assoc* 1985;186:605–608.